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COMPUTER SYSTEM FOR MANAGING FLUCTUATING CASH FLOWS

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I. Priority Stat ment

This patent application is a continuation-in-part, claiming priority from, and incorporating by reference, U.S. Ser. No. 60/446,811, filed 12 February 2003 by the same inventors, with the same title.

II. Background of the Invention

A. Technical Field of the Invention

5 The present invention pertains to a computer machine, manufacture, methods of making and using the same, and product produced thereby, as well as necessary intermediates, each pertaining to managing fluctuating cash flows.

B. Background of the Invention

10 Corporations routinely purchase corporate-owned life insurance (COLI)/ bank-owned life insurance (BOLI) contracts, the Policies, on employees, Covered Persons, in whom the corporation has an insurable interest. In many cases, these policies are purchased as funding vehicles to offset specific future corporate liabilities (e.g., deferred compensation plans). Because the policies pay death benefits upon the deaths of corporate employees, the
15 corporations may have concerns regarding the potential deviation of the receipt of death benefits from the expected timing of such receipts, resulting in a mismatch of the cash flow derived from the COLI/BOLI contracts and the funding needs of the associated future liabilities.

In the life insurance industry, reinsurance is an important risk management tool. It is a contractual risk transfer that usually involves mortality risk transfer. It is a tool for ceding
20 insurance companies to smooth out fluctuations in earnings which are usually heavily dependent on actual mortality results. The ceding insurance company has future actual mortality liability and wants certainty. The ceding company pays expected mortality plus costs in exchange for receipt of actual mortality.

In the financial sector, it is not uncommon that property & casualty (P&C)
25 insurance derivatives are traded that swaps actual results for expected results using generic benefit index applicable to segments of the market.

What about entities, that own future actual mortality cash flows and want to eliminate the uncertainty in the timing and in the amount of these cash flows, for example,

employers using BOLI/COLI as funding vehicles for future liabilities, securitization programs for life insurance funding such as charity, and any other organization that requires more predictable cash flows. There are corporations that are logical counterparties to these entities, such as, life reinsurers and large well funded Defined Benefit Pension Plans, where the life insurance risks
5 taken on the swap would be general hedges against their current life reinsurance portfolio and their longevity risks, respectively.

Mortality and other benefit occurrences (such as disability or longevity) vary so much from one case to another that the generic benefit index pricing used in the P&C insurance derivatives is not sufficient to price the associated risks effectively.

III. SUMMARY OF THE INVENTION

In general, events, measurable by statistical or actuarial projections or probabilities, that fluctuate in timing and/or amount, where such events are uncontrolled by the parties, can produce irregular financial results. A SWAP, or the like, serves to add certainty to financial results for one party by shifting variable or irregular financial results to another party.

For example, this approach can be used to manage insurance policy death proceeds arising from a group of insureds and smooth out or regularize cash flows from the proceeds. The invention can be used in other applications, but this example is particularly instructive for understanding the nature of the invention and computer support therefore.

To carry out this approach, a financial derivative can be structured as a "Swap", similar to a Credit derivative. It can also be embedded into other financial instruments, for example, Bonds and Stocks. The policy beneficiary/owner (or another party with a beneficial interest in the policies, such as a charity) could enter a "Swap" contract with counterparty and would "Swap" actual mortality or other cash flows for the related expected cash flows. The policy beneficiary/owner would receive "Expected Mortality" or other "expected cash flow(s)" in exchange for "Actual Mortality" or other "actual cash flow(s)." The "Swap" terms would have to be specific to the underlying plan, program, and policies as mortality and other benefit occurrences vary so much from case to case. The analysis for development of these terms is included as part of this invention. A generic benefit index may not be readily developable to build a "generic" product similar to the traded P&C insurance derivatives. Too much "basis risk" could exist, making the product unattractive.

The counterparty's fees would be either explicit in the purchase price or incorporated in the "Expected Cash Flow" rates. The fee could be a one-time fee, or, more likely, a periodic fee. The swap could normally require mandatory renewal, e.g., except in the case where the underlying program has been terminated, in which case there would most likely be some sort of settlement. The term of the product could be, say, 30 years, with a memo

account tracking experience, with a settlement, should the plan of insurance be cut short.

Expected Mortality rates paid could be based on the underlying policies, similar to rate setting for yearly renewable term (YRT) reinsurance treaties, so expected and actual cash flow(s) could be based on the makeup of the plan.

5 The counterparty could be either a disinterested third party or the original insurer issuing the product to the plan, or the reinsurer providing reinsurance cover to the original insurer, or all of the above. Whether or not the "Swap" qualifies as a "Hedge" under the IRC can be controlled, if desired. Also, a portion of the mortality risk, say the first \$25,000 per life, could be left with the Policy Beneficiary/Owner (similar to "Excess Retention" reinsurance), if desired.

10 The transaction can be carried out with computer support, even including communications and documentation. For example, an insurance company receives premiums and pays benefits under policies sold to policy holders. A policy holder enters into a swap agreement with counterparty. Periodically, the counterparty and the policy holder calculate the actual benefits minus expected benefits to form a result. If the result is positive, policy holder
15 pays counterparty, more or less, the result. If the result is negative, counterparty pays policy holder, more or less, the absolute value of the result.

 These and other objects and/or advantages improve over the prior art as can be appreciated from the more detailed discussion of the invention that follows.

IV. BRIEF DESCRIPTION OF THE DRAWINGS

FIGURE 1 is a graphic representation of a transaction for managing fluctuating cash flows.

FIGURE 2 is a diagram representing the computer system in accordance with the invention.

FIGURE 3 is a flowchart showing the logic of the logic means for controlling the computer system in accordance with the invention.

FIGURE 4 is a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention.

FIGURE 5 shows a combination of FIGURES 5a-5C.

FIGURE 5a, which continues through FIGURE 5c, represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to an exchange of contractual exposures from insurable risks.

FIGURE 5b is a continuation of FIGURE 5a, and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to an exchange of contractual exposures from insurable risks.

FIGURE 5c is a continuation of FIGURE 5b, and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to an exchange of contractual exposures from insurable risks.

FIGURE 6 shows a combination of FIGURES 6a-6c.

FIGURE 6a, which continues through FIGURE 6c, represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic

means for controlling the computer system in accordance with the invention as applied to securitizing funding for the contractual exposures.

FIGURE 6b is a continuation of FIGURE 6a, and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to securitizing funding for the contractual exposures.

FIGURE 6c is a continuation of FIGURE 6b, and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to securitizing funding for the contractual exposures.

FIGURE 7 shows a combination of FIGURES 7a-7f.

FIGURE 7a, which continues through FIGURE 7f, represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to contractual exposures.

FIGURE 7b is a continuation of Figure 7a and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to contractual exposures.

FIGURE 7c is a continuation of FIGURE 7b and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to contractual exposures.

FIGURE 7d is a continuation of FIGURE 7c and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic

means for controlling the computer system in accordance with the invention as applied to contractual exposures.

FIGURE 7e is a continuation of FIGURE 7d and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic

5 means for controlling the computer system in accordance with the invention as applied to contractual exposures.

FIGURE 7f is a continuation of FIGURE 7e and represents a portion of a flowchart showing the data input, computational and other logic, and the data output of the logic means for controlling the computer system in accordance with the invention as applied to

10 contractual exposures.

FIGURE 8 is a graphic representation of interrelated computer systems in accordance with the invention.

FIGURE 9 is an illustration summarizing the embodiment of the invention as a swap security.

**V. DETAILED DESCRIPTION OF THE DRAWINGS AND A REPRESENTATIVE
PREFERRED EMBODIMENT**

FIGURE 1 illustrates the nature of the financial innovation that gives rise to the
5 need for the computer system and methods of the present invention. Corporations have
contractual exposures, for example with respect to benefit payments, to individuals or to groups
of individuals. Insurance or reinsurance contracts obtained by these corporations provide actual
cash flows upon the occurrence of certain contingent events specified in the contracts. A
contingent event could be death, disability, or survivorship. The financial innovation of the
10 present invention allows for (1) the exchange of these actual cash flows for expected cash
flows, with respect to amount and timing, associated with these contractual exposures, (2) the
regular settlement of the net of the actual and the expected cash flows from and to the
corporation, and (3) the participation for consideration of a counterparty to the corporation.

A Second Party 4, usually a corporation, is subject to Contractual Exposures 16
15 of benefit payments to Plurality of Individuals 20. (Similarly, Second Party 4 could be subject to
corporate Contractual Exposures 16 of benefit payments to a Group of Individuals 18. The
Contractual Exposures 16 could be for risks associated with a member of a group, Block 22,
consisting of Plurality of Individuals 20 and Group of Individuals 18). Second Party 4 usually
contracts with an insurance or reinsurance company for these contractual exposures and
20 receives actual cash flows upon occurrence of contingent events with respect to Plurality of
Individuals 20 or Group of Individuals 18. There is no certainty to the timing and amount of
actual cash flows. The financial innovation describes the Computer System 32 (see FIGURE 2)
and the methods for a Transaction 6 (in the nature of an exchange or a swap of expected
results for actual results) between a First Party 2 (another party or a counter party, usually a
25 reinsurer, another corporation, trust or individual) and the Second Party 4. This Transaction 6
enables Second Party 4 to manage, with respect to timing and amount, fluctuations of actual
cash flows resulting from said Contractual Exposures 6. Second Party 4 would be accountable

for Actual Cash Flows 8 to First Party 2 while First Party 2 would be accountable for Expected Cash Flows 10 to Second Party 4. A Net Settlement 12 of cash flows between First Party 2 and Second Party 4 occurs on a regular basis.

FIGURE 2 provides a graphic presentation of the computer system for managing fluctuating cash flows. The present invention is directed to a Computer System 32 (i) that manipulates digital electrical signals consisting of (a) Input Data 34 pertaining to the Contractual Exposures 16, (b) model documents including Stored Model Cash Flows Documents 48, Stored Model Net Settlements Documents 50 and Stored Other Documents 52, and (c) previously encoded and processed data Stored Data Files 46; (ii) that transforms these signals into analyses of the data and assumptions; (iii) that uses these transaction specific data and assumptions and price each transaction separately; (iv) that documents the results in Financial Analysis Output 58, and (v) that illustrates selected results in Processed Model Documents 60.

The Computer System 32 includes a Digital Electronic Computer with Central Processor 38, a Memory System 40, an Input Device 36, and preferably two output devices, Output Device 54 and Output Device 56. The Memory System 40 includes an operating system Logic Means 42 to run the Computer System 32 and applications software. For example, the operating system could be Microsoft XP Professional that would allow use of (a) its applications software such as Microsoft EXCEL, ACCESS, and WORD, and (b) actuarial pricing systems compatible with Microsoft XP Professional such as AXIS, TAS, or PROPHET. The Memory System 40 includes (a) a Word Processing Program 44 such as Microsoft Word to generate Processed Model Documents 60 using data, assumptions, and results, (b) a Data Management Program 43 such as Microsoft EXCEL or ACCESS to manage and evaluate data files, and (c) an Actuarial Pricing System 45 such as AXIS, TAS or PROPHET that access data files and assumptions and generates pricing results. The Input Device 36 such as a keyboard receives Input Data 34 either manually or electronically. Output Device 54 and Output Device 56, such as a printer or a CD drive; produce such relevant documents as the Financial Analysis Output 58.

Financial Analysis Output 58, including the input data, processed results, statistical and financial assumptions, and other relevant information as well as processing logic, is normally shared via a network of computers as indicated in FIGURE 8 (Computer System 32, and computer systems, Blocks 342-358, of parties involved such as First Party, Second Party, Tax Advisors, Accounting Advisors, Marketing Advisors, Legal Advisors, Securitization Pool, Other Consultants and Regulatory Bodies) and technical discussions occur until desired results are processed and illustrated formally in Processed Model Documents 60.

Input data 34, usually in the form of files, includes:

- List of the lives associated with the contractual exposures, identified by codes and including an identification of whether the contractual exposures are on individual lives or a group of lives;
- Characteristics of the risks associated with these lives, at least one of, sex, age, mortality rating, morbidity rating, compensation, position, job class and years of service;
- Rates of decrement (in the form of statistical assumptions such as mortality rates) associated with these lives as per the Contractual Exposures 16;
- Financial assumptions, at least one of, discount rate, expense and fee;
- Updates to above;
- Pricing assumptions, and any updates;
- Actual cash flows, timing and amount, per life (or group of lives);
- Transaction data including :
 - Legal name of First Party 2;
 - Legal name of Second Party 4;
 - Effective date of the transaction;
 - Duration of the transaction and renewability options;
 - Transaction fee, which could be a single fee or an annual fee incorporated in the regular net settlement; and

- Other fees, at least an early termination fee.

Processed data includes:

- Expected rates of decrement, and any updates;
- Expected cash flows, timing and amount, per life (or group of lives), per regular time period;
- Actual cash flows, timing and amount, per life (or group of lives), per regular time period;
- Net settlement, per regular time period, illustrating separately transaction fee and other fees; and
- Comparative, year-to-date and historical versions of the above data.

FIGURE 3 is a flowchart of the overall operational processes for Computer System 32 (see FIGURE 2). Shell 82 allows for two pathways, one for processing data, using Title Screen Data Processing System 84, and the other for processing model documents, using Word Processing Program 44.

Title Screen Data Processing System 84 could be a coded or programmed EXCEL application, or similar application software that allows processing of numbers and logical evaluations. Starting with Main Menu 86, that allows for the processing of information for the current invention, and using Data Management Program 43, the system allows for creation of new data file (Block 92) and update of existing data file (Block 88, retrieval of data file and Block 90, identification of data file); then display (Block 94) and input/edit (Block 96) of data form.

Using Actuarial Pricing System 45, the system allows for the processing (Block 98) of these data files. This pricing system generates multiple scenario results used for pricing evaluation and then the final results for the specific transaction. Using Data Management Program 43 (see FIGURE 2) data information is printed (Block 100), data form (Block 102) is stored, and data file (Block 104) is stored. Using Word Processing Program 44, model cash flows documents, model net settlements documents and other documents are stored as per Blocks 48-52. Data files are maintained historically, per contract, from its effective date. Data storage is physically in the

computer or in a computer readable file kept offsite. As defined in detail above, data includes statistical assumptions, financial assumptions, respective descriptions of risks, pricing data, expected cash flows corresponding to said risks for time periods for the duration of the contract, actual cash flows information from occurrence of events corresponding to said risks, net settlement for each said time periods between the parties in the transaction, transaction fee and fee for early termination of the contract.

Word Processing Program 44 allows for creating blank model documents (Blocks 48-52, cash flow documents, net settlements documents and other documents), editing existing model documents for any updates (Block 108), printing such results (Block 110) and storing different versions of model documents (Block 112). Model documents showing current results and usually comparative, year-to-date and historical results are also produced regularly. Model documents per regular accounting periods showing actual results, expected results and net settlements are maintained historically per contract.

The Logic Means 42 allows for continuing processing in Blocks 84, 86 and 114 (thru the title screen, main menu and the logic to continue with the word processing program) as well as for finalization of the process thru Blocks 108 and 114 (thru the quit routine in the title screen and the logic to quit with the word processing program).

FIGURE 4 shows the logic of the processes in the general embodiment of the current invention. Input data is received starting from the early stages of preparation for the transaction and during regular time periods for the duration of the contract. The process includes Receiving Respective Descriptions of Risks 132, Receiving Statistical Assumptions for Said Risks 134, and Receiving Financial Assumptions for Said Risks 136 in order to perform Calculating Expected Cash Flows 138. The risks refer to the risk parameters, such as age, sex, mortality rating and others, associated with either Plurality of Individuals 20 or Group of Individuals 18 (see FIGURE 1), as is appropriate for the Contractual Exposures 16 (see FIGURE 1). The statistical assumptions, such as the expected mortality rates, characterize and

correspond to the risks associated with the contractual exposures. The financial assumptions reflect the financial terms agreed upon by First Party 2 and Second Party 4 and allow for the calculation of the timing and amount of expected cash flows, and with the pricing data allow for the calculation of the resulting transaction fee and other fee such as fee for early termination.

- 5 The assumptions are stored by the computer system. From time-to-time, these assumptions are reviewed and revised. Any further discussions are initiated by either First Party 2 or Second Party 4 for any assumption revisions that affect the terms of the transaction. The computer system maintains all relevant data for generating the financial results per regular time period, per year-to-date period, per comparative time periods and historically. Storage off-site is also
- 10 maintained. Blocks 140-146 and 156-158 allow for the storage of information. These processes include Storing Descriptions of Risks 140, Statistical Assumptions 142, Financial Assumptions 144, Expected Cash Flows 146, Net Settlement 156 and Actual Cash Flows 158.

Receiving Actual Cash Flows Information from Occurrence of Events

- Corresponding to Said Risks 148 is performed during regular accounting periods and data is
- 15 provided by Second Party 4. An example of the occurrence of an event is the death of one of Plurality of Individuals 20 and receipt by Second Party 4, from either an insurance company or a reinsurance company, of an actual death benefit increased with interest credited from date of death. Or it could be that the occurrence of the event is a trigger for the contractual payment liability of Second Party 4 (who is contractually liable but is self-insuring the death benefit
- 20 payment).

- The regular processing at said time periods include Accounting for First Party owing Expected Cash Flows to Second Party to the Transaction 150, Accounting for Second Party owing Actual Cash Flows to First Party 152 but only Computing a Net Settlement 154 which becomes the basis of the exchange of moneys between First Party 2 and Second Party 4.
- 25 The exchange of moneys is accompanied by documents showing actual cash flows, expected cash flows, net settlement, transaction fee and fee for early termination (if appropriate) for the

current time period and other agreed-upon comparative or cumulative data. The Processed Model Documents 60 also includes the appropriate transaction details.

FIGURES 5-5c shows the logic of the processes in the embodiment of the current invention as an exchange of contractual exposures from insurable risks. The present invention involves Computer System 32 for managing fluctuating cash flow(s). In general, uncertain events that can be measured using statistical or actuarial methodologies but are not certain in timing and/or amounts, and such events are uncontrolled by the parties, can produce financial results that may vary from expected results. A SWAP of expected results for actual results, or the like, for example, either on a "proportional", "non-proportional", "symmetric", or "asymmetric" basis (es), serves to add certainty to financial results for one party by shifting variable or irregular financial results to another party.

For example, this approach can be used to manage insurance policy death proceeds arising from an insured group by adding certainty to the otherwise variable cash flow(s) from the death proceeds. The invention can be used in other applications, but this idea is particularly instructive for understanding computer support therefore.

To carry out this approach, a financial derivative can be structured as a "Swap", similar to a Credit derivative. The policy beneficiary/owner or another party with a beneficial interest in the policies, such as a charity (beneficiary) could enter a "Swap" contract with counterparty and would "Swap" actual mortality or other cash flow(s) for the related expected mortality or other cash flow(s). The Beneficiary would receive "Expected Mortality" or other "expected cash flow(s)" in exchange for "Actual Mortality" or other "actual cash flow(s)." The "Swap" terms would be specific to the underlying plan, program, and/or policies as expected, as well as actual mortality and other benefit occurrences, vary so much from case to case. A generic benefit index may not be readily developable to build a "generic" product similar to those used in the traded P&C insurance derivatives. Too much "basis risk" could exist, making the product unattractive.

The counterparty's fees would be either explicit in the purchase price or incorporated in the "Expected Cash Flow" rates. The fee could be a one-time fee, or, more likely, a periodic fee. The swap could normally require mandatory renewal, e.g., except in the case where the underlying program has been terminated, in which case there would most likely be some sort of settlement, since one of the parties may have the ability to control whether or not termination takes place. The term of the product could be, say, 30 years, with a memo account tracking experience, with a settlement, should the plan of insurance be cut short. Expected Mortality rates paid would be based on the underlying policies, similar to rate setting for YRT reinsurance treaties, so expected and actual cash flow(s) could be based on the makeup of the plan.

The counterparty could be either a disinterested or interested third party. Whether or not the "Swap" qualifies as a "Hedge" under the Internal Revenue Code or GAAP Accounting Rules or both can be controlled, if desired. Also, a portion of the mortality risk, say the first \$25,000 per life, could be left with the Policy Beneficiary/Owner (similar to "Excess Retention" reinsurance), if desired.

Computer support will generally be useful in at least evaluating and pricing the SWAP at the time the contract is agreed to, as well as in calculating the periodic net settlements.

Receiving respective characteristics of said risks, referring to Plurality of Individuals 20, (or Group of Individuals 18, as is appropriate), involves Selecting Respective Descriptions of Risks 184 (in general, characteristics associated with the actual nature of the Contractual Exposures 16) from among Respective Insurance Risk Coverage of Individuals 172, Respective Contractual Insurable Risk Exposure to Individuals 174, Contractual Exposures From COLI Coverage of Individuals 176, Contractual Exposures from BOLI Coverage of Individuals 178, Corporate Contractual Benefit Payment Exposures to Individuals 180 or Contractual Exposures in a Reinsurance Treaty 182, as is specific to the particular transaction.

Additional data input steps include Receiving Statistical Assumptions 134, and Financial Assumptions 136. All these information allows the computer to Process Descriptions and Assumptions 186 and Calculate Timing and Amounts of Benefits 188 associated with the risks, Plurality of Individuals 20 (or Groups of Individuals 18, as is the case). And more specifically the system calculates corresponding Expected Cash Flows for Time Periods in Block 138 (see FIGURE 4). Agreed upon time periods could be annually, quarterly, monthly, or as defined by the parties.

Upon occurrence of events, actual cash flow data can be provided to the system through Receiving Actual Cash Flows Information in Block 148. The computer system then continues the process with Accounting for a First Party owing the Expected Cash Flows 150 and Accounting for the Second Party owing the Actual Cash Flows 152.

Another process involves the definition of the relationship between the actual cash flows and the expected cash flows and involves discussions between Second Party 4 and First Party 2 and among all or some of the parties identified by their computer systems in FIGURE 8, such as the inventors, the parties, the consultants and other bodies providing input. The selection process is Selecting a Specific Definition of a Relationship between Expected Cash Flows and the Actual Cash Flows 198. The choices in the selection are A Relationship between the Expected Cash Flows and the Actual Cash Flows Reflecting a Symmetric Exchange of Non-proportional Contractual Exposures 192, Reflecting a Symmetric Exchange of Proportional Contractual Exposures 194 or Reflecting an Asymmetric Exchange of Proportional and Non-proportional Contractual Exposures 196. Assumptions of a large portfolio of lives and a known distribution of results, usually normal distribution, underlie the evaluation of proportional or non-proportional exposures and of symmetric or asymmetric exchanges which are relationships between actual and expected results. First Party 2 will evaluate the risks associated with the symmetric and proportional bases and negotiate with Second Party 4 the final relationship. As an example of a proportional and non-proportional asymmetric swap before

incorporating margins and loadings, Second Party 4 could be accountable to the First Party 2 for 10% of all actual claims better than mean portfolio expected results in exchange for First Party 2 being accountable to Second Party 4 for all actual results in excess of 1.5 standard deviations of a normal distribution of portfolio expected results. Once the relationship has been defined, all Pricing Data Reflecting the Exchange 202 (including this relationship) is also coded into the computer system. The pricing process starts with evaluating the pure risk relationship between the cash flows. Then risk margins are incorporated. Profit margin and other pricing parameters (loadings) such as expenses are then incorporated. The price for the transaction can be a single fee, or a yearly fee incorporated into the expected results. The contract is expected to be renewable for durations of 30 plus years. As such a provision for early termination is reflected in an early termination fee agreed upon by both parties. The process continues to Computing a Net Settlement 154 reflecting such relationship and the corresponding pricing data. The net settlement is a payment by Second Party 4 of the excess of actual to expected cash flows and a payment by First Party 2 of the excess of expected to actual cash flows.

All input data and data resulting from the logic processes are stored in the computer with steps indicated in Blocks 142-146, 156-158, 190, 200, 204 and 206. These include storing Selected Descriptions of Risks 206, Statistical Assumptions 142, Financial Assumptions 144, Expected Cash Flows 146, Net Settlement 156, and Actual Cash Flows 158. Further included are storing the timing and amounts of Benefits 190, Selected Relationship between Expected and Actual Cash Flows 200, and Pricing Data 204.

FIGURES 6-6c shows the logic of the processes in the embodiment of the current invention as applied to securitizing funding for the contractual exposures.

First Party 2 could be a securitization pool. A securitization pool usually pays out a lump sum value in exchange for a series of future cash flows. A securitization pool has access

to future cash flows and can be accountable for the expected cash flows in the transaction for this current invention.

Among Blocks 172-180, all pertaining to risks associated with contractual exposures to individuals, Block 212 allows for selecting Respective Descriptions of Risks as is appropriate for the transaction. The risks as appropriate to the transaction could be those received and associated with (1) Contractual Exposures from Respective Insurable Risk Coverage of Individuals 172, (2) Respective Contractual Risk Exposure to Individuals 174, (3) Contractual Exposures from COLI Coverage of Individuals 176, (4) Contractual Exposures from BOLI Coverage of Individuals 178, and (5) Corporate Contractual Benefit Payment Exposures to Individuals 180. The steps Receiving Statistical Assumptions for Said Risks 134 and Receiving Financial Assumptions for Said Risks 136 complete input of data. Then these data are processed to generate expected cash flows thru Block 214, Processing Responsive to Data Reflecting Securitizing of Funding for the Contractual Exposures, and Block 138, Calculating From the Descriptions and Assumptions, Expected Cash Flows Corresponding to Said Risks for Time Periods

Block 148 provides actual cash flows information. With the expected cash flows and actual cash flows, the system allows Accounting for A First Party Owing the Expected Cash Flows to a Second Party 150, Accounting for the Second Party Owing the Actual Cash Flows to the First Party 152 and Computing a Net Settlement 154.

The computer system further Calculates the Impact of the Transaction on the Securitizing 218, and the Impact of the Transaction on Traunches for Securitizing 220 and then Determines the effect of said Transaction on a Securitization Pool 222. These processes incorporate the results of the transaction with the securitization pool and review the results of the securitization pool before and after incorporating the results of the transaction.

Blocks 142-144,156-158,216, 224-230, stores input data, processed data, and all data reflected in the processed model documents. These include Storing Selected Descriptions

of Risks Associated with Individuals 216, Statistical Assumptions 142, Financial Assumptions 144, Expected Cash Flows reflecting Securitizing of Funding 224, Net Settlement 156 and Actual Cash Flows 158. Further included is Storing the Impact of Transaction on Securitizing 226, on Traunches for Securitizing 228 and on the Securitization Pool 230.

5 All these detailed processes are coded into the Computer System 32.

FIGURES 7-7f shows the logic of the processes in the embodiment of the current invention as applied more generally to Contractual Exposures 16. Receiving Respective Description of Risks 132 (see FIGURE 4) involves Selecting Respective Descriptions Associated with Specific Contractual Exposures 184 (the choices are insurable risk coverage from individuals, insurable risk exposure to individuals, exposures from COLI, exposures from BOLI, corporate contractual exposures or exposures in a reinsurance treaty) and further Receiving Nominal Death Benefit Face Amounts 242. Block 132 also involves Selecting Respective Characteristics Associated with Individuals or a Group of Individuals 250 (Blocks 246 and 248 allowing for these choices) and further Receiving at least One Characteristic as Age, Sex, Mortality Rating, Morbidity Rating, Compensation, Position, Job class and Years of Service 244. By Block 250, the Contractual Exposures 16 would become specific to either individuals or group of individuals. The risk characteristics as coded into the system are reflective of whether the contractual exposures are for individuals or for a group of individuals. For a group of individuals, it is not uncommon to group the lives and then use an average risk characteristic such as a central average age or even a weighted average mortality rating.

These characteristics define the insurable risks and allows for the Selection of Specific Rates of Decrement 264 (in processes 256-262 the applicable rates of decrement to the risk exposures are identified for selection; general rates of decrement, those associated with insurable risk coverage of individuals, with insurable risk exposures to individuals and with a reinsurance treaty) and the further Receiving of Expected Mortality Rates 254 in the Receipt of Statistical Assumptions 134 (see FIGURE 4).

The step Receipt of Financial Assumptions 136 (see FIGURE 4) further includes receiving at least one of the following information, a Discount Rate, an Expense or a Fee 252. A discount rate is normally used in evaluating a current valuation of the risks, the cost and the fee. Expenses or fees associated with the transaction are also included in the valuations.

5 Next step is Receiving Data Identifying the Second Party 272, Data Identifying the Transaction Binding the Parties 270 and Data Identifying the Transaction as Having a Portion Renewable 268. These information complete transaction data reflected in the processed model documents.

 Margins and Loadings are Incorporated in Developing Expected Mortality Rates
10 274 to Determine Expected Timing and Amount of Death Benefits 276 and Calculate Expected Cash Flows 138. Expected Timing and Expected Amount of Death Benefits are Tracked 280. With Receipt of Actual Cash Flows Information 148 and Receipt of Information on Actual Timing and Actual Amounts of Death Benefits 266, Actual Timing and Actual Amounts of Death Benefits are Tracked 282 as well. Further Accounting for a First Party Owing Expected Cash
15 Flows 150, Accounting for the Second Party Owing the Actual Cash Flows 152, and Computing a Net Settlement, for each said Time Periods 154, Net Settlements are Tracked 284. Historical Records 286 are also maintained. Statistical methodologies are coded into the system. Expected rates of decrements are used in these methodologies. Valuations of expected results are also done by the system. Scenarios testing of actual results versus expected results are
20 also evaluated. Then actual results with expected results are tracked.

 The output Provides the Second Party with Documentation of Cash Flows 288, Illustration of a Transaction Fee from the Second Party to the First Party 290 and further illustrating said Transaction Fee Incorporated in the Net Settlement 292. An additional process is Accounting for the First Party Receiving a Fee for Early Termination of Transaction 294 to
25 mitigate one party's ability to control whether termination takes place or not. All relevant

financial data are illustrated to allow Second Party 4 to evaluate results and results to-date.

Similarly for First Party 2.

Input data are updated regularly and as desired in Block 278. Blocks 206, 142-144, 300, 156-158, 296-298, 302-306, 308-324 allow for storing all input data and all processed data. These include selected descriptions of risks, statistical assumptions, financial assumptions, expected cash flows, net settlement and actual cash flows. For the descriptions of risks, further included are nominal death benefit face amounts, characteristics of risks such as mortality rating, and identification of whether risks are evaluated as individuals or as a group of individuals. Statistical assumptions are further defined with expected mortality rates and specific rates of decrement. Financial assumptions include at least a discount rate, an expense or a fee. Expected cash flows further include margins and loadings in the expected mortality rates, and expected timing and expected amounts of death benefits resulting from these mortality rates. Actual cash flows data include actual timing and actual amount of death benefits for each life. All corresponding historical information is also stored. Further stored are transaction data such as party with ownership rights to contractual exposures, binding contract and renewability of contract.

FIGURE 8 shows the involvement of the inventors' network of computer systems as well as the computer systems of all interested and involved parties, Blocks 342-358. These are the computer systems for First Party 342, Second Party 344, Tax Advisors 346, Accounting Advisors 348, Marketing Advisors 350, Legal Advisors 352, Securitization Pool 354, Other Consultants 356, and Regulatory Bodies 358. These interested and involved bodies include the inventors, the parties to the transaction, consultants and other bodies that provide input data to the transaction. Information shared among these bodies includes Financial Analysis Output 58 and Processed Model Documents 60.

FIGURE 9 summarizes the embodiment of the current invention as a swap investment security Block 362. The swap investment security is similar to a catastrophe bond. The security will be in the form of a preferred stock or a subordinated debt such that the investment return of the investor will be a fixed-income return 364 plus or minus the results of the mortality swap Transaction 6, the current invention. Building the Mortality Swap into a debt instrument will produce a security that resembles a Catastrophe Bond in the P&C market, but with the unique characteristics of life risk transfer. Like a Catastrophe Bond, insurance risk is transferred to a Capital Markets instrument; unlike Cat Bonds, the security holder has upside as well as downside insurance profit/loss potential, and the bond may be structured as a Surplus Note, providing Capital to an insurer who issues it.

The bond would be issued for cash for a specific term (or it could be a perpetual) and would pay a coupon rate, supported by the investment income on the cash, plus a mortality differential equal to expected mortality minus actual mortality. The differential could either be positive or negative and, if negative greater than the interest, it could invade the principle to a specified limit.

A variation that used some or all of early year positive results to build a "buffer" fund (which earned interest) might be used in more volatile-prone situations.

A second variation would be to pay a higher rate and only charge losses against the instrument, perhaps with a carry-forward of the loss to be recovered out of future mortality gains.

There are an infinite number of variations, but to summarize, the invention can be viewed in one embodiment as including the steps of entering into the computer the assumptions specific to the contractual exposures for the transaction, the data respecting the covered risks, and the pricing data reflecting risks and costs; entering the specific relationships of expected results to actual results, or the like, for example, either on a "proportional", "non-proportional", "symmetric", or "asymmetric" basis (es), which are to be the subject of the SWAP between a party and a counterparty; engaging the computer to calculate, summarize and report the

periodic expected or projected results which are to be SWAPped; storing the data for periodic comparison to actual results; the periodically entering into the computer of actual results of the events subject to the SWAP; calculating the differences to produce a report of the net settlement between the party and the counterparty; and the historically tracking of the results for the duration of the transaction. The method reflecting (i) SWAP terms not being a generic index but being specific to the underlying plan, program, policies, or, in general, contractual exposures or contractual insurable risk exposures as well as to actual mortality and other benefit occurrences or events associated with the transaction; and (ii) the use of an actuarial pricing system for separately pricing each transaction. More broadly, however, the terms and expressions which have been employed herein are used as terms of teaching and not of limitation, and there is no intention, in the use of such terms and expressions, of excluding equivalents of the features shown and described, or portions thereof, it being recognized that various modifications are possible within the scope of the invention claimed. Further, various embodiments of the present invention are described herein. Although this inventions has been described with reference to these specific embodiments, the descriptions are intended to be illustrative of the invention and are not intended to be limiting. Various modifications and applications may occur to those skilled in the art without departing from the true spirit and scope of the invention as defined in the appended claims.